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Minutes

To: NCPA Finance Committee
From: Trisha Zimmer
Subject: February 9, 2021 Finance Committee Meeting Minutes

1. Call Meeting to Order and Roll Call

The meeting was called to order at 10:32am.

The meeting attendees either present or participating remotely are as follows: Finance Committee representatives: Robert Orbeta (Alameda), Melissa Price (Lodi), Ann Hatcher (Santa Clara), and Eric Campbell (Roseville); NCPA Staff: Monty Hanks, Sondra Ainsworth, Eric Siu, Jane Luckhardt, as well as Tarun Narayn from Palo Alto, and Michael Berwanger from PFM. Committee member Greg Scharff (Palo Alto) was absent. A quorum of the Committee was established.

PUBLIC FORUM

No one from the public was present at the site or at any of the teleconference locations.

DISCUSSION / ACTION ITEMS

2. Approve Minutes from the November 10, 2020 Finance Committee Meeting.

A motion was made by Melissa Price and seconded by Eric Campbell recommending approval of the November 10, 2020 Finance Committee meeting minutes. A vote was taken by roll call: YES = Robert Orbeta (Alameda), Melissa Price (Lodi), Ann Hatcher (Santa Clara) and Eric Campbell (Roseville). Palo Alto was absent. The motion passed.

REPORTS AND COMMITTEE ACTION ITEMS

3. Report of Current Financial Market Conditions or Issues

Michael Berwanger of PFM provided a presentation of the current financial market conditions. The short-term market continues to be a favorable market with rates near zero and this has led MMD to remain at all-time record lows. New issuance volume was down by 26.57% year-over-year in January. According to effective Fed funds futures, the market is not expecting any interest rate actions through June 2021. In late-March 2020, SIFMA spiked due to Covid-19 impacts. Following the subsequent Fed economic relief programs, SIFMA stabilized – remaining around 80% of LIBOR since early May, while SOFR has been at or below 80% of LIBOR since mid-March.

Since the November report, Hydro bonds have reset at or below 0.10% and have traded better than SIFMA by a couple basis points. The 2008A bonds are hedged with an interest rate swap and backed by a direct-pay letter of credit agreement with Bank of America. PFM spoke to the Agency's bond counsel who recommended that the Agency wait to register. Agency staff will continue to monitor and bring back when the timing is right.

4. Debt and Interest Rate Management Report as of December 31, 2020.

Monty Hanks provided a detailed presentation on the Debt and Interest Rate Management report as of December 31, 2020. There have been no negative material changes to any fixed or variable rate debt or outstanding swap agreements since the last report. Ratings on all projects remained the same with Fitch affirming the Aa2 rating and stable outlook on the Lodi Energy Center Revenue Bonds, Indenture B. No defaults have occurred under the above mentioned swap agreements, fixed rate or variable rate debt. Counterparty ratings remained the same and no collateral posting by the counterparty has been required. The Mark-to-Market on the outstanding swaps changed from a negative value of \$21 million on June 30, 2020 to a negative value of \$20.2 million on December 31, 2020.

Staff recommends that the Finance Committee request the Commission accept the Debt and Interest Rate Management Report for the period ending December 31, 2020.

Motion: a motion was made by Ann Hatcher and seconded by Robert Orbeta recommending acceptance of the Debt and Interest Rate Report for the period ending December 31, 2020. A vote was taken by roll call: YES: Robert Orbeta (Alameda), Melissa Price (Lodi), Ann Hatcher (Santa Clara), and Eric Campbell (Roseville). Palo Alto was absent. The motion passed.

5. Modification to Investment Policy and Guidelines.

Staff is recommending approval of modifications to the Investment Policy and Guidelines as presented by Sondra Ainsworth. Staff recently reviewed the Investment Policy and Guidelines against the California Government Code, Sections 53600 and 53635 et. seq. Based on that review, staff recommends revisions to Attachment 3 to increase the maximum percentage allowable to be invested in municipal bonds from 20% to 30%, add a footnote defining the parameters for the purchase of an Agency Members' municipal bonds, and to update Attachment 4 to include the Capital Facilities 2019 and Lodi Energy Center 2017 bond indentures. These modifications to increase the allowable concentration for municipal bonds from 20% to 30% is projected to result in approximately \$10,000 in additional interest income in fiscal year 2021.

Motion: a motion was made by Robert Orbeta and seconded by Melissa Price recommending approval of the modifications to the Investment Policy and Guidelines as presented and discussed. A vote was taken by roll call: YES = Robert Orbeta (Alameda), Melissa Price (Lodi), Ann Hatcher (Santa Clara), and Eric Campbell (Roseville). Palo Alto was absent. The motion passed.

NEW BUSINESS

6. Long-Term Funding Plan for the NCPA Pension Program and Request to Shift Contributions

The PERS Actuarial Report as of June 30, 2019 was reviewed. The funding ratio has been improving over the years and as of the date of the report is at 62.1%. The FY2018 actuarial report was used to build the FY2021 Budget for PERS Pension funding.

The OPEB Valuation Report shows that the total liability increased from \$33million to \$37 million from 2015-2019. The estimates for 2021 are approximately \$40 million. Between FY2018 to FY2021, the Agency has been contributing \$2.83 million towards OPEB. This level is not necessary based on the current balances. Staff is recommending a \$2 million reimbursement from the OPEB trust and transfer those funds to the PERS pension. For FY2021, the OPEB contributions would be reduced by \$2 million and the PERS contributions would be increased by \$2 million. This would shift the budgeted dollars in order to pay down the unfunded liability more quickly. The benefits of this approach would allow the PERS and OPEB budgets to remain relatively flat and could potentially create approximately \$13.6 million in additional future savings including eliminating over \$8.6 million in annual UAL payments. The approach would apply to the FY22 budget as well.

After discussion, the Committee requested more time to review this approach before making a decision on staff's recommendations. The Committee also requested a per Member impact of these dollars. This topic will be brought back for further discussion at the next regular Finance Committee meeting. No action taken.

7. NCPA Disaster Recovery Center

The Agency has been leasing the current Disaster Recovery Center location since 2009. This lease expires on April 30, 2022 with no option to extend this lease. Staff has been working with Colliers International to locate available new properties. Over the past 3 months, staff has toured 6 potential locations, of which 3 have already sold. The prices range from \$150-\$350/sqft. A potential property has recently been located in Rancho Cordova. The Agency submitted a letter of intent to purchase, however, the Agency is not obligated to anything at this point.

Staff discussed various funding options and recommends an intrafund loan from the Geothermal Decommissioning Reserve. This would be a 30 year term with a floating interest rate, for FY2022 the APR would be 2.238%. If this Rancho Cordova property was purchased, the annual payment would be approximately \$96,000. The intrafund loan would be repaid by 2051, prior to the end of the project, estimated for 2059.

Monty is planning to seek approval to purchase this property from the Utility Directors and Commission. He is requesting that the Finance Committee provide direction on whether or not the Geothermal Decommissioning intrafund loan is the favored approach to finance this purchase.

Motion: A motion was made by Melissa Price and seconded by Ann Hatcher approving staff's recommendation to facilitate the purchase of a new Disaster Recovery Center utilizing a Geothermal Decommissioning intrafund loan. A vote was taken by roll call: YES = Robert Orbeta (Alameda), Melissa Price (Lodi), Eric Campbell (Roseville), and Ann Hatcher (Santa Clara). Palo Alto was absent. The motion passed.

8. Other Items of Interest to the Finance Committee

No other topics were discussed.

9. Next Finance Committee Meeting

The next regular Finance Committee meeting is scheduled for May 11, 2021 at 10:30am.

ADJOURNMENT

The meeting was adjourned at 12:38pm.

DRAFT